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SUBJECT: FRANCE: IMPACT OF PRESIDENTIAL CANDIDATES' ECONOMIC  
PROPOSALS ON EMPLOYMENT

11. (U) SUMMARY. According to an evaluation of the leading French presidential candidates' job-creation proposals by a prominent think tank aligned with French business groups, only center-right UMP candidate Nicolas Sarkozy's policy proposals would create jobs and add to GDP growth; centrist UDF candidate Francois Bayrou's and Socialist Party candidate Segolene Royal's proposals would have a net effect of destroying jobs and reducing GDP growth. END OF SUMMARY

Think Thank Evaluates Impact of Job-creation Proposals made by  
Leading Presidential Candidates

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12. (U) COE-REXECODE, a prominent think tank and forecasting group aligned with French business groups, evaluated the short-term and medium-term impacts of job-creation proposals made by center-right UMP candidate Nicolas Sarkozy, centrist UDF candidate Francois Bayrou and Socialist Party candidate Segolene Royal.

Sarkozy's Proposals Would Result in Job, GDP Growth

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13. (U) According to COE-REXECODE, Sarkozy's proposals to allow over-time hours above the annual 220-hour maximum, and exempt overtime pay from taxes, would enhance wage-earners' purchasing power, especially in sectors with labor shortages. The resulting 45 percent increase in overtime pay to employees would be a "strong direct incentive" on labor supply, while the 26 percent decrease in the cost of overtime to employers would favor an increase in work hours and eventually labor demand thanks to a decrease in the average cost of labor. The proposal would create 180,000 jobs (120,000 jobs and 60,000 "job equivalents" induced by the extension of worked hours) and in the short-term add 1.3 percent to the present 2.0 percent French GDP growth rate. In the long term, the impacts of measures would be more significant as the elimination of the 35-hour work week would help restore France's competitiveness.

Bayrou'S Proposals have a Mixed Effect

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14. (U) According to the study, Bayrou's proposals would have a mixed effect. His proposal to increase by 35 percent overtime pay (for hours 35 to 39 worked per week), and to reduce related social taxes by 17 percent, would initially increase GDP by 0.5 percent. His proposal to eliminate social taxes on two new jobs created per company ("emplois francs," targeting very small companies and individual entrepreneurs) would increase GDP by 0.6 percent and create 90,000 jobs - "a modest performance relative to its cost" (7.4 billion euros or 9.6 billion USD). However, the proposal to

limit payroll tax breaks on low wage jobs (up to 1.3 times the minimum wage versus 1.6 times currently) to small and medium sized companies (versus applying the tax breaks to all companies) would increase the business sector's overall tax burden, cut GDP by 1.3-1.6 percent and result in the loss of 230,000 jobs. The overall net result of Bayrou's proposals in the short term would be a 0.3 percent decrease in GDP growth and a net loss of 60,000 jobs. The long-term effect on economic growth and competitiveness would be relatively neutral as the measures would cancel each other out.

#### Royal's Proposals Would Harm Competitiveness

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¶5. (U) Royal's proposal to increase the monthly minimum wage (SMIC) to 1,500 euros by 2012 would cause an increase in the costs of production that would harm competitiveness. The proposal would result in the elimination of 50,000 jobs and a 0.3 percent cut in GDP. The elimination of the new hiring contract ("Contrat Nouvelle Embauche - CNE") by itself would destroy another 30,000 jobs and cut GDP growth by an additional 0.2 percent. Her proposal to impose the 35-hour work week on all French companies would be even more detrimental, resulting in additional 0.9 percent cut in GDP and loss of another 150,000 jobs. Royal's proposal to increase local government-sponsored jobs ("emplois-tremplins") to 450,000 from 50,000 currently would create some jobs in the short term, but would require financing by regions that would inevitably increase taxes and drag down economic growth. That said, COE-REXECODE did not seriously expect the measure, which could sap up to 30 percent of the regions' budgets (7 billion euros or USD 9.1 billion), to reach its full potential given other existing government-subsidized contracts. In the long-term, Royals' proposals would result in a decline in competitiveness and purchasing power.

#### Economic Reform on a Short Wire

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¶6. (SBU) Rexecode Director Michel Didier told Emboffs on April 16 that if Nicolas Sarkozy is elected he would have to push through economic reforms during an extraordinary summer session of parliament. Waiting until fall would allow the opposition to coalesce and likely stall reform efforts. (Note: Sarkozy has said he would act just after the June legislative elections, assuming UMP controls the National Assembly. End note.) Didier thought Sarkozy's proposed measures, such as eliminating taxes on overtime pay, would have an important psychological effect that could lead to further reform of the labor market. Didier expects that, if elected, socialist candidate Segolene Royal would impose further rigidities on the French economy. Didier felt that none of the candidates had a long-term vision for the French economy, and instead were simply tinkering within the existing policy framework.

#### The Usual Caveats

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¶7. (U) COE-REXECODE warned it did not evaluate the impact of all factors, including possible changes in labor contracts (e.g. Sarkozy's proposal to create a single labor contract - replacing some that are highly protective and some that are highly flexible) or in union representation (e.g. Royal's proposal to encourage unionization of employees with tax incentives). The evaluation also does not include "the very long term impact of support to higher education and research, although they are parts of the three candidates' programs." COE-REXECODE's evaluation is limited to job-creation proposals of the candidates, and holds other variables constant.

#### Comment

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¶8. (SBU) The study should be taken with a grain of salt, given Didier's affinity with Sarkozy. However, even in the most optimistic scenario the study shows that only 180,000 jobs would be created. Whoever is elected President may well be tempted to continue the French tradition of resorting to government-subsidized contracts to create jobs, should real reform prove too difficult. In 2006, government contracts supported 370,000 new jobs. Employment in the private sector benefited from

government-subsidized alternative training contracts (412,000), payroll tax exemptions (214,000), and government-subsidized contracts in favor of full-time jobs (150,000).

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